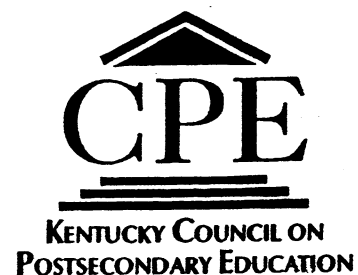


KENTUCKY POSTSECONDARY EDUCATION

Funding History: 1980-2002

PRESENTED TO THE
COUNCIL ON POSTSECONDARY
EDUCATION FINANCE COMMITTEE
DECEMBER 19, 2000

COMMONWEALTH OF KENTUCKY
COUNCIL ON POSTSECONDARY EDUCATION
FRANKFORT, KENTUCKY 40601-8204



KENTUCKY POSTSECONDARY EDUCATION FUNDING HISTORY: 1980 - 2002

I. Postsecondary Education Funding Chronology

The Postsecondary Education Funding Methods Chronology identifies the major milestones and changes in which Kentucky state government and the previous Council on Higher Education addressed higher education funding issues over the past two decades. The data are presented by fiscal biennium, beginning with the 1980–82 biennial period.

1980-82

The Council on Higher Education's 1980-82 funding recommendation was not based on a formal funding method but was based on a funding approach that had as its major element the consideration of the institutional mission statements adopted by the Council in 1977. The recommendation addressed the need for adequate support of the higher education system and was to address compensation for faculty and the pressure of inflation on operating costs.

When it adopted the university mission statements, the Council indicated "the financing of higher education should not be based solely on the number or level of students and the financing should stimulate innovation, quality, and creativity in program development. In developing the procedures for providing state support for higher education, qualitative factors should be incorporated which will recognize and support excellence and innovation in the development of programs and services by the institutions."

In fiscal year 1981 state General Fund revenue shortfalls required that enacted appropriations be reduced - higher education's portion of that statewide budget reduction was over \$28 million. Further revenue shortfalls in fiscal year 1982 resulted in two additional reductions for higher education. The first reduction was over \$25 million and the second reduction was almost \$18 million. Attachment A shows state General Fund appropriations as enacted and revised since fiscal year 1981.

1982-84

During the 1982-84 biennium, the Council developed a funding model that addressed the following four goals: 1) providing support that would enable each institution to carry out its mission as defined by the Council on Higher Education; 2) providing support that would ensure the quality of the programs needed by each institution to carry out its mission; 3) providing support that would result in equitable funding for each institution; and 4) providing support that would ensure access to higher education for Kentuckians who were qualified to pursue it.

This funding model included calculated items to measure the adequacy of support necessary for the institutions to satisfactorily carry out their missions in the following areas: academic instruction and support; preparatory education; individual and project research; libraries; student services and other institutional support; physical plant operations; and student financial aid.

The remaining items included in the recommendation were at a continuation base level and included medical and dental instruction; hospitals; adult and continuing education; institutes and research centers; community services; cooperative extension; university press; unfunded retirement; and debt service.

The "mission model" approach used in developing the 1982-84 recommendation indicated that equity among the institutions did not exist within the system of public higher education and that recommendations from the Council would need to incorporate funding that would allow all institutions to have the quality of programs necessary to carry out their respective missions. The Council's 1982-84 recommendation included a statement that indicated that enhancement funding for Kentucky State University would occur after reaching a resolution with the U.S. Office of Civil Rights on the Kentucky Desegregation Plan.

1984-86

Senate Bill 168, which was passed in 1984, directed the Council on Higher Education, in cooperation with the universities, to initiate a formula review. Attachment B details the process and the resulting formula.

The formula review's objectives were to develop a formula which 1) considered institutional needs and statutory, institutional, and geographic missions; 2) provided an adequate level of support for each institution; and 3) distributed funds among the institutions in an equitable manner. The revised formula was to provide a buffer against the impact of enrollment fluctuations.

As described in Attachment B, the formula review process was guided by the following principles:

- The review and revision of the formula would be based on the existing structure of higher education in the Commonwealth.
- The formula would be relatively simple, but would be capable of reflecting differing institutional needs.
- There should be common levels of funding of common activities, as well as provisions for funding special activities.
- The formula would include factors which reflect the differing roles and missions, sizes, locations, and programs of institutions.
- As many of the formula items as possible would be calculated.
- Information on comparable institutions and national averages were to be used in the formula.
- The formula would provide a base level of funding for each institution to recognize the administrative program needs.
- The formula would provide management incentives to the institutions to achieve certain desirable goals, such as challenge grants, interinstitutional cooperation, effective management, fund raising, and other similar activities. Disincentives would be avoided.
- The procedure for requesting state support would include the use of the formula and a mechanism for making special requests.
- Special efforts, above and beyond the formula, would be made to assure adequate funding to carry out the Commonwealth's and the institutions' commitment to desegregation.

Public hearings were held at each public university and one community college campus. After the hearings, the Council's finance staff visited 18 states to review other state higher education formulas. The information collected from those states and at the hearings was the groundwork for a comprehensive review and revision of the Kentucky formula. Between July 1982 and February 1983, a Formula Study Committee, consisting of the university budget directors, Office for Policy and Management staff, and chaired by the Deputy Executive Director for Finance of the Council, met to review and discuss proposed alternatives for each formula component.

A Formula Steering Committee, consisting of the university presidents, the Secretary of Finance, and chaired by the Executive Director of the Council, met to review and discuss the Study Committee's progress reports and offer direction for future study activities.

Both the Formula Steering Committee and Formula Study Committee responded to issues identified from the comments of the presidents, individuals who attended public hearings, Council members, and the institutions. The resulting formula included 22 primary components and multiple subcomponents.

In addition to the request to "fund the formula," the Council's 1984-86 recommendation included a funding recommendation to support the commitments made in Kentucky's Higher Education Desegregation Plan: \$3 million in fiscal year 1985 and \$3.7 million in fiscal year 1986.

Kentucky State University's portion of these funds was \$1.5 million in fiscal year 1985 and \$2 million in fiscal year 1986. In addition to the operating funds, the recommendation included capital funding for KSU of \$1.6 million in fiscal year 1984, \$9.2 million in fiscal year 1985, and \$4.2 million in fiscal year 1986. This revised formula was used for the Council's 1984-86, 1986-88, and 1988-1990 biennial funding recommendations.

1986-88 and 1988-90

In accordance with the policy adopted by the Council in November 1984, technical adjustments, i.e., updating various data elements such as enrollments and salary data, were made to the formula for both the 1986-88 and 1988-90 biennial recommendations. In addition, the formula calculations were adjusted to implement Council policy relative to law and dental programs resulting from the development of the *Strategic Plan for Higher Education in Kentucky*.

In addition to the formula generated amount, the 1986-88 biennial Council recommendation included funding for desegregation activities at the institution: \$4.3 million in fiscal year 1987 and \$4.5 million in fiscal year 1988. Kentucky State University's portion of these funds was \$2.2 million in fiscal year 1987 and \$2.3 million in fiscal year 1988. In addition to the formula generated amount, the 1988-90 recommendation included funding for desegregation activities at the institutions: \$4.4 million in fiscal year 1989 and \$4.6 million in fiscal year 1990. KSU's portion of these funds was \$2.4 million in fiscal year 1989 and \$2.5 million in fiscal year 1990.

An overview of the funding formula used in determining the Council's 1986-88 and 1988-90 biennial recommendations is included as Attachment C.

Revenue shortfalls in each year of the 1986-88 biennium resulted in state General Fund reductions at the institutions. The fiscal year 1987 reduction to postsecondary education was about \$12 million and the fiscal year 1988 reduction was \$20.8 million.

1990-92

During the 1988-90 interim, the Council undertook a comprehensive review of the formula and the formula use policy.

Between October 1988 and March 1989, a committee comprised of representatives from each institution, the Council on Higher Education, the Governor's Office for Policy and Management, and the Legislative Research Commission reviewed the Kentucky formula as well as formulas

used in other states. In May 1989, the Council approved the committee's report on the formula review. This report called for revisions to the Kentucky formula in the following areas:

1. *Changes in data or rates:* subcomponents affected included instruction (increase upper division support rates, adjust composition of instructional areas); research (increase the match on externally-sponsored research); student financial aid (increase funding for institutionally-based programs); community service (change the method of calculation to the greater of a base or 1 percent of instruction); and preparatory education (add base funding for each institution, increase support per student).
2. *Creation of new components/subcomponents:* an equal educational opportunities feature provided a mechanism to incorporate funding for the desegregation plan for higher education in Kentucky into the formula and an extended-campus centers feature recognized the anticipated additional requirements to implement the CHE policy in this area.
3. *Consolidation of components:* the existing 22 components were consolidated into 12 components as a first step toward simplifying and clarifying the presentation of the formula.

An overview of the revised funding formula is included as Attachment D. A brief description of each component and subcomponent of the formula, and the method of calculation is included in Attachment E.

The formula use policy, which distributed the amounts generated by the formula to each institution, was revised to provide for a portion of available new formula-based funds to be specifically directed to systematically reduce the gap between the lowest and highest institutional funding levels. This revision was based on:

- Maintenance of each institution's base.
- A common percentage increase for each institution.
- A "gap reduction" increase to eligible institutions.
- An equity increase to each institution based on its distance from full funding (to the extent funds were available).

This revised formula and formula use policy was used by the Council to make its funding recommendation for the institutions for the 1990-92 biennium.

In fiscal year 1992, revenue shortfalls resulted in state General Fund reductions to the institutions of approximately \$41.5 million.

1992-94

The Council's 1992-94 funding recommendation was based on the formula as revised in the 1988-90 interim.

State General Fund revenue shortfalls continued during the 1992-94 biennium resulting in budget reductions to the institutions. As a result of budget cutbacks, the total fiscal year 1994 General Fund appropriations to postsecondary education institutions was \$669 million, \$5 million less than the total appropriations for fiscal year 1992, two years earlier.

In September 1993, Governor Brereton Jones appointed the Higher Education Review Commission (HERC). The Commission completed its review in December 1993. As directed by HERC and ratified by the 1994 General Assembly, the Council was to review the existing funding method and develop an approach that promoted quality and efficiency in higher education via performance-based evaluation and funding. The funding review occurred during the 1994-96 legislative interim.

1994-96

The Council's 1994-96 funding recommendation was based on the formula used in the 1992-94 biennium, with various technical adjustments.

During the 1994-96 interim, the Council developed the Kentucky higher education funding model. The model, which was to be used for the 1996-98 biennium, contained five components: 1) a formula calculation; 2) a funding objective; 3) an appropriation distribution system; 4) a set of performance measures; and 5) a presentation strategy.

The formula calculation had two basic features. First, there was a single calculation for the biennium rather than three calculations, i.e., one for the base year and one for each of the request years. Projected inflationary increases were not included in the formula calculation. Second, there were no projections for new funding items, e.g., "new facilities coming on-line during the biennium," included in the formula calculation. The result of these modifications was that the formula reflected actual data (not projections) and formula support rates were updated to reflect actual inflation rates and actual benchmark faculty salaries.

This funding model stipulated that the institutions' requests and the Council's recommendation for state appropriation increases be based on the following: base year appropriation; plus or minus changes in debt service; plus or minus changes in the UofL Hospital contract; approved M&O for new facilities coming on-line; a current services increase calculated at the GOPM/LRC current services rate calculated on the net state appropriation base (net of debt service and the hospital contract); a fund to eliminate the funding "need" as determined by the funding objective (60 percent of these funds would address equity and 40 percent would address performance); special requests from either the institutions or the Council; and a plan for the reallocation of unearned performance funds.

Performance measures were established based on the Council's systemwide strategic plan. The framework of these measures included a number of common measures to be used by all institutions as well as a number of unique measures for each institution to address mission differentiation.

1996-98

The funding model developed in the 1994-96 interim was used to develop the Council's 1996-98 funding recommendation.

In 1997 Governor Paul Patton appointed the Task Force on Postsecondary Education (TFPE). The task force, with the assistance of national consultants, developed a plan for Kentucky's system of public postsecondary education that included as major features:

- A newly-constituted Council on Postsecondary Education (CPE) with strategic linkages to the elected leadership through the Strategic Committee on Postsecondary Education (SCOPE).
- A Kentucky Community and Technical College System (KCTCS) to serve as the governing board for the Kentucky community colleges and postsecondary technical institutions.
- A Strategic Agenda for postsecondary education.

The May 1997 Extraordinary Session of the General Assembly passed House Bill 1, the Kentucky Postsecondary Education Improvement Act, that statutorily enacted changes outlined in the TFPE report. House Bill 4, the appropriations bill passed during that session, provided \$38 million in additional funding in fiscal year 1998 for postsecondary education, including the initial funding for six newly established trust funds.

1998-2000

The funding approach used for the 1998-2000 biennium provided the postsecondary system with slightly less than a 3 percent "current services" increase in each fiscal year over the respective bases for the universities and KCTCS. It also included provisions for base adjustments to reflect changes over the biennium in state-supported debt service, the UofL hospital contract, and M&O of new facilities coming on-line.

Included in the Council's recommendation was funding for all six of the incentive trust funds created with passage of the Postsecondary Education Improvement Act:

- The Research Challenge Trust Fund
- The Regional University Excellence Trust Fund
- The Postsecondary Workforce Development Trust Fund
- The Physical Facilities Trust Fund
- The Technology Initiatives Trust Fund
- The Student Financial Aid and Advancement Trust Fund

During the 1998-2000 interim, the Council developed a benchmark funding method. Attachment F, "A Case Study Explanation Using Eastern Kentucky University," describes in detail the benchmark funding method.

2000-02

The Council used the benchmark funding method for its 2000-02 funding recommendation. The funding recommendation included funds for the six original trust funds and two new trust funds – an Adult Education and Literacy Trust Fund and a Science and Technology Trust Fund. Within the Research Challenge, the Regional University Excellence, and the Workforce Development Trust Funds there was a \$16 million recommendation in fiscal year 2002 for an Enrollment Growth and Retention Program. This program was designed to address the Action Agenda initiatives to increase the college-going rates and the institutions' retention rates. The program was funded at \$8 million for each year of the biennium.

The Adult Education and Literacy Trust Fund was funded at \$7 million in fiscal year 2001 and \$12 million in fiscal year 2002 to implement provisions of Senate Bill 1, the Adult Education Bill.

Funds also were recommended for the Science and Technology Trust Fund to implement provisions of House Bill 572, the Knowledge-based Economy Bill. \$1.25 million was appropriated in fiscal year 2001 and \$4.25 million was appropriated in fiscal year 2002.

At the July 17, 2000, Council meeting, the Finance Committee directed the staff to begin a review of the benchmark funding method. Furthermore, the Council's Finance Committee requested the Strategic Committee on Postsecondary Education (SCOPE) to appoint a subcommittee to review the benchmark funding method during the 2000-02 interim. That review is ongoing.